

Unregistered Activity Inspection in the Customs Administration Business Model in Croatia

K. Maršić, Ž. Dobrović

Faculty of Textile Technology, Zagreb, Croatia
University Of Applied Sciences Velika Gorica, Croatia
kristina.marsic@tff.hr, zeljko.dobrovic@vvg.hr,

Abstract – Every organization has certain objectives which are utilized to define desired achievements or states. Ways of obtaining said objectives are defined by plans. This paper shows an activity plan pertaining to the conduction of inspection of unregistered business activity in the Customs Administration of Republic of Croatia. The entire inspection process is divided into sub - processes and activities it's comprised of. The inspection process is demonstrated using a 'BPMN' notation. Objective of this paper is to design an unregistered activity inspection model which can then be directly applied and which can, furthermore, demonstrate how an organization can improve its existing unregistered activity inspection processes by utilization of good management, planning and organization of available resources. Our aspiration is to create a process which contributes to better and more efficient labor results as well as to satisfaction of all process participants, but can also decrease the time necessary for control during inspection conduction, as well as result quantification. This new unregistered activity inspection model should incite economic growth through an increase in the GDP value, all due to a lowered unregistered activity rate; said lowered unregistered activity rate being a direct consequence of efficient control systems and an increase in the number of active and registered business subjects.

Keywords: *unregistered business activity, inspection, Customs Administration, modeling, business process*

I. INTRODUCTION

The notion of unregistered business activity is often associated and equated with the notion of gray economy, or unregistered economy. In the terminological sense, gray economy is characterized by a very wide area of activity [1]. Gray economy can be associated with illegal economy, which includes the production and distribution of goods and services prohibited by the law, such as drugs, prostitution, smuggling, organized crime, usury and theft. The term also refers to an undeclared economy, which encompasses any activity used by a business subject in order to avoid certain fiscal rules and taxation laws when making tax and contribution payments. Gray economy also includes unregistered economies or activities that have been omitted from the official statistics; also, it includes informal economy and other unregistered activities used to lower company costs and break administrative rules. The objective of this paper is

to create an inspection process that will efficiently affect suppression of unregistered business activity conducted by legal and natural persons [2]. Considering that unregistered activity has a variety of meanings and encompasses a variety of fields, this new inspection model shall be exclusively applied to the field of illegal business conduction, which implies situations where a legal or a natural person is conducting an activity or activities which have not been previously registered with the proper authorities (i.e., so called moonlighting).

Inspection supervision is considered to be one of the most important responsibilities of the state administration, and is conducted in accordance with certain special rules, regulations and laws. Said process includes verification as to whether the supervision subject has been obeying all the laws and procedures under the jurisdiction of state administration bodies. Inspection supervision in the Customs Administration encompasses application supervision pertaining to customs and excise duty regulations, special tax regulations, regulations in the field of unregistered business activity and other regulations under the jurisdiction of Customs Administration. Said supervision is to be conducted by inspectors and other authorized customs officers.

Unregistered business activity inspection supervision is a procedure which is to be conducted by inspectors and other authorized customs officers in accordance with the Customs Administration Law and [3] Act on Prohibition and Prevention of Unregistered Business Activity [4]. Said inspection is to be conducted in accordance with the above-mentioned procedure. Subjects of inspection are usually legal and natural persons where one can identify probable cause pertaining to the conduction of unregistered business activity. Unregistered business activity inspection supervision procedure has been determined by the Act on Prohibition and Prevention of Unregistered Business Activity.

One of the participants of this process is the subject that is being processed, i.e., any legal or natural person conducting a business activity which has not been previously registered with the authorized state administration body and for which they failed to acquire all required permits. The petition can be filed by either a

legal or a natural person who has obtained knowledge about unregistered business activity that's being carried out by another legal or natural person, and has reported these persons with the authorities (i.e., with the Customs Administration and the Inspection Office). The Inspection Office is an organizational unit within the Customs Administration and as such is in charge of conducting the unregistered activity inspection supervision.

This paper is structured in the following way: first, a display of the complete inspection supervision model is given using a Data Flow Diagram. The «AS -IS» model describes the current unregistered business activity inspection process used by the Customs Administration, whereas the «TO -BE» model displays the process which should be used by the Customs Administration in accordance with the pre – set inspection supervision objectives. The models are displayed using the BPMN (Business Process Model Notation) language, i.e., a graphic notation utilized to model and describe business processes. BPMN is a standardized graphic language which facilitates communication and improves understanding of business processes, i.e., enables the connection between the real and the IT system [5].

II. REVIEW OF RELATED STUDIES

The notion of unregistered activity is often associated with notions like illegal, criminal, informal [6]. According to Chen and Schneider [7], grey economy encompasses unregistered activity and any activity that negatively affects the GDP values of a certain country. The effects of workplace – related (employee status) informal activities and the total GDP performance in the South Asian countries indicate state – driven efforts to solve said problems, often through creation of new workplaces in the formal economy in order to incite growth and development and thusly increase GDP [8]. Authors Maršić and Oreški have researched significant effects of state control and unregistered business activity inspection supervision systems on a decrease of the overall unemployment rates due to the process of starting up new businesses [9] [10]. In this research authors Maršić and Oreški have demonstrated an increase in the number of registered businesses during the activation period for the Act on Prohibition and Prevention of Unregistered Business Activity, which has had a positive impact on the GDP and growth, as well as on the employment rates. The necessity to create a business inspection supervision process for the entire system under the jurisdiction of the Customs Administration (monitoring the results the inspector is achieving, stimulation, award - systems, statistic displays of public benefits, count and structure of misdemeanors) was described by the author Sambolić – Kasap [11].

III. RESEARCH METHODOLOGY

Based on the pre – set objectives pertaining to the modeling of the process of unregistered business activity inspection supervision, scientific methods have been used, whereas the direction of research was based on practical experiences in the field of inspection supervision (i.e., the current model of unregistered business activity supervision as well as scientific and professional literature). Methods used in the process of research and creation of this paper were analysis and synthesis, as based on the data collected for the purposes of this research; all in order to form conclusions and suggest future strategies in the end. Method of assessment of an organization's readiness to achieve its objectives and prove the set hypotheses has also been utilized. The modeling method has been utilized as the basis of this research. Said method was used to display relationships between objects in the process of inspection supervision, in order to gain a realistic perspective on the Customs Administration's conduction of inspection supervision. The process model is a simplified abstraction of the display of the real unregistered business activity inspection supervision flow; meaning that the elements of the real world are copied onto the appropriate model elements. The process model is herewith displayed in accordance with the laws and regulations, as well as authorizations and jurisdictions on each level. The display has been constructed using the BPMN language.[12], [13]. Long-term experience in the field of unregistered business activity inspection supervision makes for a database that has served as a baseline for the creation of this model. The process model shows processes, storages, outer systems and documentation flows. A quality model represents a business technology process description that is in accordance with reality (AS – IS). Present and future models are compared in order to notice their similarities and common features, as well as to display the strengths and weaknesses stemming from the method of inspection supervision conduction; all in order to present concrete improvement suggestions.

A. Data description

In order to construct the AS – IS and TO – BE models we first must perceive the complete inspection supervision process. This is to be done using an appropriate data flow diagram, so that all subjects and documents that are used as a part of the business process of inspection supervision are visible. “Data Flow Diagram” (DTF) is a notation used to model multiple – level processes, which gives us a hierarchical decomposition of the organization into functions, processes and activities [14], [15].

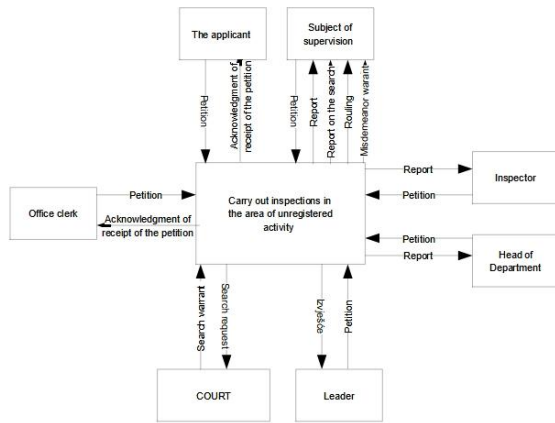


FIGURE 1 DATA FLOW DIAGRAM” (DTF)“ FOR THE PROCESS – CONDUCT THE UNREGISTERED BUSINESS ACTIVITY INSPECTION IN ACCORDANCE WITH THE FILED PETITION

This is important because it describes all subjects involved in the process and documents created during the process. This diagram describes the outer system of the unregistered business activity inspection supervision process, after the petition has been filed.

For better understanding, the unregistered business activity inspection supervision process has been divided into sub – processes. Said sub – processes have been named and explained in table 1.

TABLE 1. SUB – PROCESS DESCRIPTION FOR THE AS – IS MODEL

Process name	Process description
Initiate unregistered business activity inspection supervision	The process is initiated once the petition is filed on the Customs Administration’s premises. The person filing the petition may file in person, via email or via fax. The process is finished when the petition has been archived in the office and a new case has been opened. Said case is characterized by a classification mark and a registry number, and is forwarded to an inspector for further handling.
Prepare for unregistered business activity inspection supervision	The designated inspector begins the process of inspection supervision preparation by perusing important facts provided in the petition and the pertaining laws and regulations. If the inspector decides to act on the petition, this process ends when a request to issue a Search Warrant is sent to the Court. The Search Warrant is necessary to search the subject’s home and other premises.
Conduct unregistered business activity inspection supervision	The obtained search warrant enables the conduction of the inspection supervision process. This process begins by determination of facts pertaining to the conduction of inspection supervision on the accused subject’s premises, and ends when the report is either delivered or served to the inspection subject.
Determine administrative measures	The process begins with determination of facts and an oral ruling on prohibition of conduction of unregistered business activity. Said facts are included in the Inspection Supervision Report. The process ends when a written copy of the oral ruling is mailed to the subject or personally served to them on the Customs Administration’s premises.
Determine presence of a misdemeanor	This process begins with a sub – process: one must determine whether a misdemeanor has occurred. A misdemeanor warrant is issued and delivered to the inspection and supervision subject.

Report	This process begins with a sub - process: data analysis. The data incurred during the inspection process is analyzed and different reports are written, all in accordance with the user’s demands. The process ends with another sub – process: report delivery, wherein reports are delivered to all interested parties.
--------	---

Table 2. describes documentation used during an unregistered activity inspection supervision process.

TABLE 2. DOCUMENTATION DESCRIPTION

Document name	Document description
The Law	The law refers to the entire jurisdiction of Customs Administration during the unregistered activity inspection supervision process. The Act on Prohibition and Prevention of Unregistered Business Activity Conduction dictates the authorizations for suppression of unregistered business activity, as well as the means and ways of conducting said inspection supervision.
Annual activity plan	The annual activity plan encompasses a display of all the yearly tasks and obligations of the Customs Administration, all in accordance with the Strategic Plan of Republic of Croatia.
Petition	The petition is a written submission wherein a legal or a natural person reports their suspicions about conduction of unregistered business activity on another subject’s (a legal or a natural person) premises. All facts indicating the existence of unregistered business activity must be mentioned in the petition.
A formal request for the Court to issue a Search Warrant	A written document wherein a Misdemeanor Court with local jurisdiction is asked to issue a Search Warrant pertaining to the search of home and other premises on the address reported in the petition (i.e., the address where the alleged unregistered activity is being conducted).
Report on the search of home and other premises	A written document containing the description of all conducted actions and procedures pertaining to the process of search, as well as a description of all important facts found during said search.
An inspection supervision report	A document containing a description of all determined and conducted actions pertaining to the unregistered business activity, as well as a detailed description of facts instrumental to issuing other administrative and misdemeanor measures.
Ruling on prohibition of unregistered business activity conduction	A ruling is a written act prohibiting unregistered activity conduction.
Misdemeanor warrant	A document ruling on the misdemeanor and criminal responsibility of the inspection subject, as well as on the severity of the monetary fine. This document also demands that the fine be paid within the pre – determined deadline.
Report	A document providing a written report to the state institutions and other institutions that have participated in this inspection (or find use in obtaining information determined during the inspection process).

IV. UNREGISTERED BUSINESS ACTIVITY INSPECTION AND SUPERVISION PROCESS

A. The „AS-IS“ process description

According to the Act on Prohibition and Suppression of Unregistered Activity Conduction, the unregistered business activity inspection supervision tasks count among the newer tasks under the jurisdiction of the

Customs Administration. When taking on new tasks, the state institution in question needs to be prepared, both in the organizational and the human – resources department. Considering the size and volume of tasks already conducted by the Customs Administration before taking on these new obligations, the unregistered business activity inspection supervision belonged to a group of tasks that needed to be adapted to the existing system. The Customs Department still hasn't defined an inspection and supervision model that would include all the crucial elements and achieve results that are in accordance with the pre – determined objectives listed in the annual plans. Some of the problems included questions pertaining to the very flow of the inspection supervision conduction, such as: who is going to conduct the inspection supervision, who shall define the guidelines necessary to carry out control, what are the costs of inspection supervision conduction going to be or what are the final results and effects of inspection supervision going to be. According to the noted organizational needs, a present – condition model has been constructed. This model has been created in accordance with the available data on pre - existing inspection supervision cases conducted by the Customs Administration, as well as with documentation used in the existing procedures. The current shortcomings in the conduction of the unregistered business activity inspection supervision are given in the initial model, the «AS – IS» model. These shortcomings include a large number of participants (handlers), an increased inspection supervision time, as well as inspections initialized on the basis of incomplete petitions. Ultimately, this does not quantify results of such controls, but instead only paints a picture of a task being handled and done [16].

Using the present inspection and supervision model; and based on the annual plan, the data pertaining to the inspection count and the results obtained therewith are displayed in the table 3.

TABLE 3. INSPECTION RESULTS; AS – IS MODEL

Year	Inspection count	Misdemeanor count
2014	2484	No data
2015	5557	985 PN and 37 OP
2016	3511	875 PN and 9 OP
2017	2652	0
2018	1715	0

Data has been obtained from the Ministry of Finance's and Customs Administration's yearly reports. Column two shows the count of conducted unregistered business activity inspection supervisions, whereas column three displays the total count of issued misdemeanor warrants and indictments. These numbers show how successful the inspectors were when conducting inspection supervision; i.e., how many inspection supervisions resulted in a misdemeanor

warrant and a misdemeanor report. In 2017 and 2018 there were no issued misdemeanor warrants and no misdemeanor reports, which points to a low efficiency of the current inspection model.

B. The „TO – BE“ process model

The TO – BE inspection model is a new version of the model, designed to replace the current system. A long – standing experience in the field of unregistered business activity inspection supervision, as well as acknowledgment of the various processes and activities it is comprised of and the results of all conducted controls (which are partially displayed in Table 3., “misdemeanor sanctions) resulted in the necessity to construct a new “TO – BE” process. It has been constructed in order to lower the costs, resources and time consumption necessary to carry out the unregistered business activity inspection supervision process. Ultimate results of this system would impact the entire economy of Republic of Croatia in a positive way. Due to a large count of inspection supervision process participants (co – handlers), there are often cases wherein crucial information getting scattered, as well as a notable lack of work consistency and a significant increase in the total duration of the inspection supervision process.

By handing a petition to a single handler, i.e. to one single inspector in charge of handling the process from the moment the petition is filed to the moment when a report is delivered to the person who initially filed it (and other state institutions), inspection supervision would gain a fresh dimension and structure. The basic module of this new procedure is that each inspector singlehandedly conducts the entire inspection supervision process. Of course, due to the complexity of inspection supervision, said inspector's superiors must also be included, as well as other inspectors who will participate in the premise search and other reconnaissance operations.

This new process also includes the option to discard a petition if the terms for further process conduction have not been met; meaning the petition is incomplete or doesn't contain a minimum of data necessary to initialize the next step in the inspection and supervision process. If that is the case, said petition is discarded and an official note is made. The person who filed this petition is also notified about this outcome. In this new model, it isn't possible to file a petition anonymously. The handler in charge of the case is responsible for deciding whether the petition contains all the elements necessary for taking further action or not. If the petition contains all the crucial and timely information, concrete evidence and if the person filing the petition is ready to cooperate and provide further evidence and information, the process will continue. Discarding an incomplete petition will save time and ultimately increase the count of inspections with a favorable outcome, which is actually the ultimate

objective of launching this new inspection supervision model. According to the new model, one single inspector communicates with the person who is filing the petition, requests the Search Warrant from the Court with local jurisdiction, creates the Report on the search of home and other premises, writes a Report on the inspection supervision that has just been conducted, issues a written Ruling and a Misdemeanor warrant and also creates and distributes the Main Report.

The new inspection supervision model draft has numerous advantages: for example, it encourages the Customs Administration to become very familiarized

with the structure and the subject of the inspection, it generates better results that are measurable in the number of newly registered business subjects, it contributes to development of new organizational units due to inspector specialization; furthermore, it also contributes to motivation of employees due to work and performance evaluation, it incites creative thinking, as well as generates new and better solutions. Based on the aforementioned factors, this new model shall incite an increase in the GDP values for Republic of Croatia, especially due to registration of new businesses. The following picture shows the TO – BE model.

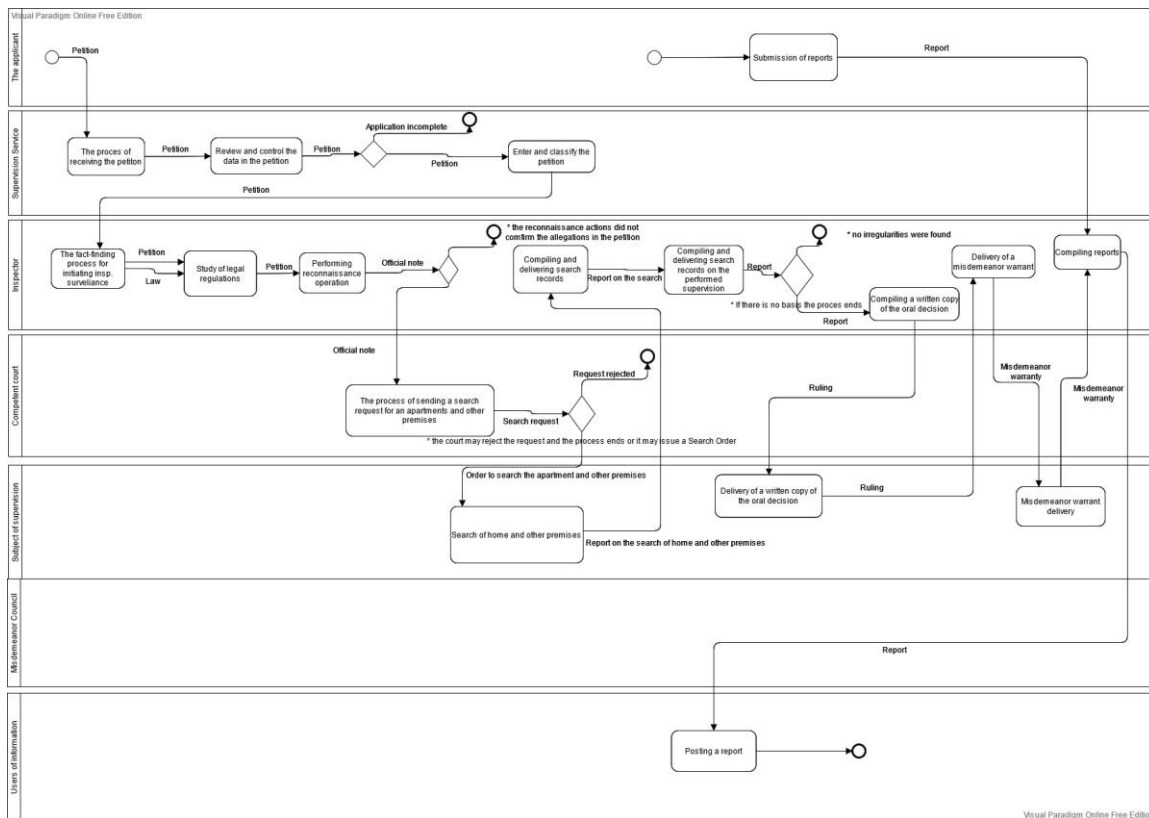


FIGURE 2. THE „TO – BE“ MODEL

V. CONCLUSION

One of the State’s basic strategic objectives is suppression of “moonlighting” due to utilization and conduction of unregistered business activity inspection and supervision. The existing unregistered business activity inspection supervision process, currently conducted by the Customs Administration, is not effective enough. Despite a very large count of filed petitions, a very small percentage of said petitions results in administrative and misdemeanor sanctions. The TO – BE process is to improve the existing process with the ultimate objective of lowering the costs of all resources included. This new model is also to shorten the duration of inspection supervision. The objective is to design a process which will contribute to better and more efficient work results and to a greater satisfaction of all the process

participants. Graphic display of the diagrams was created using the tools Microsoft Visio 2016 and BPM. The display of a real business process flow has enabled us to better understand possible problems and identify the room to improve. The State, too, plays a significant role in the suppression of unofficial economy – said activities should not only be suppressed using restrictive measures, but also through relieving tax payers of the large payments and creating a more beneficial environment for registration of certain businesses. This could also be a subject of future research. It is suggested to utilize the newly created business process in the Customs Administration in order to ensure a better conduction of the unregistered business activity inspection supervision process.

REFERENCES

- [1] M. Topić, "Grey economy in Croatia, Croatian Revision," 2006, pp. 100-103.
- [2] P. Bejaković, "Macroeconomic measurements of the Informal Economy", 1997.
- [3] Custom Administration Law "(NN 68/13, 30/14, 115/16, 39/19, 98/19).
- [4] Act on Prohibition and Prevention of Unregistered Business Activity ("NN" 61/11)
- [5] S.A. Whitw , M. Derek, "BPMN Modelling and Reference Guide: Understanding and Using BPMN", Future Strategies Inc., 2016.
- [6] O. Mandroschenko, Y. Malkova and T. Tkacheva, „Influence of the shadow economy on economic growth,“ *Journal of Applied Engineering Science*, 16 (1), 2018, pp. 87-94
- [7] H. Chen, F. Schnider, , „Size and causes of shadow economy in China over 1978-2016: Based on the currency demand method?“, 2018
- [8] T. Islam Touhidul, J. Alam, „The Relationship between Informal Economy and GDP Growth: A study on South–Asian Developing Countries,“ *Can. J. Bus. Int. Stud.*,1(5), 01-09., 2019
- [9] K. Maršić, D. Oreški, „Modelling the size of underground economy in Croatia: Fuzzy logic approach,“ , 2014, pp. 70-77.
- [10] K. Maršić, D. Oreški, „Estimation and comparison of underground economy in Croatia and European Union countries: Fuzzy logic approach,“ *Journal of information and organizational sciences*, 40 (2016),1; pp.83-104
- [11] B. Sambolić-Kasap, „Modeling The Customs Administration inspection and supervision business process,2012.
- [12] Z. Dobrović, "Business Processes and the Information System," NKS Zagreb, CASE 18(2006), pp.5-11
- [13] Z. Dobrović, „Business Importance of the Documentation Catalogue,“ NKS Zagreb, CASE 17 (2005), pp. 133-141
- [14] Z. Dobrović, M. F. Tomičić and K. T. Pupek, "Connection between Process Model and Data Model: Metamodeling Approach," *Applications of ICT in Social Sciences 2015*, (29-40)
- [15] Z. Dobrović, M. Tomičić, N. Vrček, „Towards the Effective e-Government: Implementation of Balanced Scorecard in The Public Sector,“ *Intellectual Economics*, Mykolas Romeris University, Vilnius, 2008., pp.7-17.
- [16] K. Maršić, "Modeling the Unregistered Activity Inspection and Supervision Business Process for the Ministry of Finance's Customs Administration," Final Thesis, 2019
- [17] Z. Dobrović, M. Tomičić Furjan "Performance Measurement Implementation in the Inspectorate General of Defence, Proceedings of the 2nd Symposium on Business Informatics in Central and Eastern Europe," Wien, Austria: Oestereichische Computer Gesellschaft, 2011, p.p. 91-100.
- [18] D. Vuk, " Data Modeling based on the business processes and rules," CASE 18 (2006), pp. 139-142.
- [19] Z. Lovrinčević, Z. Marić and D. Mikulčić, "Maastricht criteria and the inclusion of the grey economy – case study Croatia," 2006, pp. 28-65.
- [20] Misdemeanor Law ("NN" 107/07)
- [21] Ministry of Finance's Strategic Plan 2019.
- [22] Godišnji izvještaj o radu Ministarstva Financijske uprave 2014, 2015, 2016, 2017, 2018.